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SUBJECT: UPDATE ON COCOA GOVERNANCE AND LABOR ISSUES

REF: (A) ABIDJAN 657 (B) ABIDJAN 439 (C) ABIDJAN 544

¶1. (SBU) Summary. The Cocoa and Coffee Sector Management Committee (CGCC) named by President Gbagbo in September (ref A) has already run afoul of industry leaders. Its setting of a relatively high "indicative" farmgate price for cocoa beans led to a brief disruption of the market, and its decision to increase cocoa taxes is contrary to the advice many cocoa specialists and the World Bank have given. Both actions indicate the Committee is under pressure to respond to the immediate political and fiscal needs of the current government. The GOCI and industry have engaged in a discussion of next steps in addressing the worst forms of child labor and are reconsidering the frequency with which they should undertake surveys on the topic. The future of cocoa and coffee officials imprisoned on corruption charges in June (refs B, C) remains uncertain. End summary.

BUSINESS AS USUAL 1: THE INDICATIVE PRICE

¶2. (SBU) In recent discussions with econoff, representatives of major cocoa exporting companies have expressed their frustration with the CGCC, which was named less than two weeks prior to October 1, the official commencement of the cocoa harvest season. Traditionally, the organizations responsible for regulating the Ivorian cocoa sector have set an "indicative" farmgate price. The reasoning behind the practice is supposedly to send a signal to farmers regarding the price they should use as a basis for bargaining with buyers in the field. As one of its first official acts, the CGCC set the indicative price for the first quarter of the 2008-2009 season (October-December 2008) at 700 CFA (approximately USD 1.40) per kilo, a 40 percent increase over the indicative price cocoa officials had maintained for the entire 2007-2008 harvest. (Officials can revise the indicative price each quarter.)

¶3. (C) In fact, the world-market price for cocoa on October 1, 2008, was only 24 percent above the world price of one year earlier (USD 2,511 per metric ton in 2008 as opposed to USD 2,030 in 2007). But that price had peaked on July 1, 2008, at USD 3,237 (the highest price in at least six years),

and was clearly headed downward, dropping a full 25 percent between July 1 and October 1. Illa Donwahi, the CGCC's second-ranking official, told econoff the CGCC set the price at 40 percent above the 2007-2008 price because forecasts called for a decrease in supply in 2008-2009. However, she went on to acknowledge President Gbagbo's involvement in the decision, noting that Gbagbo wanted an even higher indicative price. In fact, Ivorian supply is running approximately 17-25 percent below last year's figures; and as of December 15, the price was USD 2,560, up 23 percent from one year earlier.

¶4. (C) Industry insiders believe the CGCC's reasons for setting such a high indicative price were purely political: the new officials simply wanted to show that the GOCI was trying to help farmers. Journalists close to Gbagbo's party heralded the indicative price as a step toward rebuilding and stabilizing the industry and quoted Gilbert N'Guessan, head of the CGCC, as saying that the price was set to give Ivorian farmers "the right reward for their work." Yet the CGCC and GOCI do not have the authority to enforce the "indicative price." The actual price is set in thousands of individual transactions between buyers and farmers in the field. In most cases, given their limited financial means and their inability to store beans for extended periods, farmers have very little bargaining power. Donwahi acknowledged to econoff that setting an indicative price is not a worthwhile exercise; however, she said, CGCC members did not feel they were in a position to terminate the practice given its long history and their short tenure.

¶5. (U) One farmers' union issued a statement complaining that purchasers were not paying the indicative price. Within days of the announcement of the target price, farmers in Mbatto (in southeast Cote d'Ivoire) demonstrated because buyers were not offering the indicative price. Disgruntled farmers blocked truckloads of beans at the port in San Pedro. But the roadblocks were in place for only 10 hours, and other statements and acts of protest died down within two weeks, even though buyers were paying only 400-560 CFA (approximately USD 0.80-1.00 per kilo), depending on the quality of the beans.

BUSINESS AS USUAL 2: TAX HIKES AND ADVANCE PAYMENTS

¶6. (U) In another early move, the CGCC raised tax rates on cocoa exports. The GOCI lowered certain "parafiscal taxes" (dedicated to cocoa agencies) but raised "export taxes" that go to Ministry of Finance coffers. The net effect, according to cocoa executives, was an increase in taxes on cocoa exports. Cocoa taxes in Cote d'Ivoire are much higher than those of neighboring Ghana and other cocoa-producing countries, and conventional wisdom in the industry holds that the GOCI should take a smaller percentage of cocoa revenues and invest a higher percentage of its revenues in increasing farmer productivity.

¶7. (C) Industry representatives believe the GOCI pressed the CGCC to raise tax rates in order to help the government through its current fiscal difficulties. A cocoa insider recently informed post that the GOCI had asked major exporters to pre-pay cocoa export taxes in July. The GOCI gave exporters coupons to present with future exports in order to demonstrate that they had already paid the required taxes. However, in September the GOCI asked exporters to discontinue use of the coupons. GOCI officials instructed the exporters instead to make tax payments in cash to Ivorian banks that had loaned funds to the GOCI (even though the exporters had already paid taxes on the products once). Finally, the GOCI asked the exporters to pay the taxes directly to the GOCI. In short, the GOCI continues to use exporters to finance public spending, and exporters feel they have no choice but to comply. Donwahi complained that she receives regular calls from the Minister of Finance, who keeps hoping for more revenue from cocoa taxes.

CHILD LABOR ISSUES

¶8. (SBU) Since the publication of the GOCI's survey on child labor in the cocoa sector, government and industry reps have begun discussing next steps. On November 14 the GOCI hosted a workshop on remediation. While participants representing farmer groups and exporters were more concerned about increasing farm productivity, government and NGO reps focused on social infrastructure, with particular emphasis on the inadequate number of schools in the cocoa-growing areas. At the same time, the GOCI launched an effort to identify all industry and NGO projects touching on the issue.

¶9. (SBU) The GOCI has proposed providing a "support package" of schools, health centers, water treatment facilities, road improvements, and other infrastructure elements to cocoa-growing villages that demonstrate a strong need. The GOCI has proposed a pilot project to cover ten villages, with the GOCI paying the entire USD 650,000 cost but has asked industry to help provide such packages to additional villages. Post contacts in the cocoa/chocolate industry are not certain how much the GOCI might expect industry to contribute and have doubts about the appropriateness of the cocoa/chocolate industry's providing basic infrastructure. They estimate there are approximately 1300 villages in need, which, at USD 65,000 per village, would bring the total tab to USD 84.5 million.

¶10. (SBU) Additionally, industry reps are questioning the value of conducting surveys on child-labor practices each year; they believe funds might be better spent on remediation efforts, given that the Governments of Cote d'Ivoire and Ghana have each conducted two surveys (one pilot survey and one full-fledged survey) on child labor in the cocoa regions, and Tulane University is currently conducting its second survey on the topic. Industry reps believe government leaders in both countries might agree that the challenges are now well defined and that another survey within a year would add little value. Industry has proposed discussing the issue at a forum, to be convened by Verite and including representatives of the Governments of Ghana and Cote d'Ivoire as well as Tulane University, the International Cocoa Initiative, NGOs with expertise in the field, and Fafo AIS and Khulisa Management Services, the two firms hired by industry to review the government-conducted surveys. (Note: These two firms recently released their report and generally found the surveys to be reliable. End note.) The meeting is tentatively set for the week of March 2, 2009, in Accra.

CORRUPTION CASE

¶11. (U) Post is aware of only one major development in the corruption case against cocoa and coffee officials. Between October 20 and 24, the investigating judge interviewed five ministers regarding the case: Minister of Agriculture Amadou Gon Coulibaly, Minister of Animal Husbandry and Fisheries (formerly Minister of Agriculture) Alphonse Douaty, Minister of National Reconciliation and Institutional Relations (formerly Minister of Agriculture) Sebastien Dano Djedje, Minister of Economy and Finance Charles Diby Koffi, Minister of Planning and Development (formerly Minister of Economy and Finance) Paul Bohoun Bouabre. Journalists and the public were not allowed to hear the testimonies, but press reports indicate the ministers themselves are not suspects in the case.

COMMENT

¶12. (SBU) It is still too early to judge the effectiveness of the CGCC. Although the establishment of an "indicative

"price" seems entirely political and even counter-productive, failure to publish a price could have created a strong backlash, given farmers' expectations. In fact, the setting of the indicative price, followed by some form of short-lived strike, and the ultimate surrender of farmers to market forces has apparently become an annual ritual. But the CGCC's decision to increase the price by 40 percent appears to have been based on politics more than economics.

Additionally, it seems that the GOCI may have given the CGCC little choice other than to raise taxes on cocoa exports this year. Although the GOCI is under pressure to meet IMF fiscal targets before the fiscal year ends on December 31, it is under no pressure to reduce cocoa taxes in the immediate future. While the new regulatory group may yet prove to be a voice of reason and may well advance improvements in the sector, for the time being it appears to be under pressure to do what is necessary to support the GOCI fiscally and politically in the short term.

¶13. (SBU) Post believes a discussion about the appropriate frequency of surveys on child labor would be worthwhile and believes the GOCI likely supports industry's views regarding the limited utility of annual surveys.

¶14. (C) The fate of the 23 officials arrested last June remains uncertain. However, the fact that they are still in jail may act as a deterrent to newly named CGCC members. What has clearly not changed is the government's heavy reliance on cocoa revenue to finance a range of state--and probably political--activities.

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